Concordia University

Department of Economics

ECONOMICS 640
Financial Economics I

Fall Term 1997

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Description

The course combines theory and empirical work in financial economics. The first part of the course introduces the student to the rationale of the pricing of financial assets from the economist's point of view. In particular, the asset pricing problem is related to individual consumption and portfolio decision making under uncertainty. Empirical issues in finance are addressed in the second part of the course. Topics include the econometrics of testing the efficient markets hypothesis and evaluating asset pricing models. Students are expected to complete a project related to a topic covered in this part of the course which will involve a significant amount of computer work.

Texts

Huang, C. and R. Litzenberger, (1988) Foundations for Financial Economics, Prentice Hall.

Campbell, J.Y., A.W. Lo and A.C. MacKinlay, (1997) The Econometrics of Financial Markets, Princeton.

Evaluation

Part I		
	Assignments	20%
	Exam	30%
Part II		
	Project	30%
	Exam	20%

Outline

Part I

1. Individual behaviour under uncertainty; comparative statics.
   Huang and Litzenberger, ch. 1.

2. Portfolio frontier; the Capital Asset Pricing Model; the Arbitrage Pricing Model.
   Huang and Litzenberger, ch. 3, 4.

3. State contingent claims; complete markets and Pareto efficiency of allocations. The allocation role of options-aggregation in securities markets.
   Huang and Litzenberger, ch. 5.

4. The tools of continuous time finance.
   Course notes.

Part II

5. The predictabilty of asset returns.
   Campbell, Lo and MacKinlay, ch. 2.

6. Estimation and testing of asset pricing models.
   Campbell, Lo and MacKinlay, ch. 5, 6.